

Pan-United Corporation Ltd

De-carbonising drives up profits



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SINGAPORE | CONSTRUCTION | 1H24 RESULTS

- 1H24 revenue and PATMI were within expectations at 44%/44% of our FY24e forecast. PATMI grew 22% YoY to S\$18.6mn from revenue growth of 7% and a drop in staff costs. Gross margins crept up 30 basis points to 21.6%. Interim dividend jumped 40% YoY to 0.7 cents.
- Revenue growth was driven by higher volumes as selling prices were flat. Low carbon or carbon mineralised concrete is now more than 50% of revenue. There is rising demand from both property developers and the public sector for these carbon-saving materials.
- We maintain our FY24e forecast and BUY recommendation. Our target price is raised to S\$0.68 (prev. S\$0.55) as we lower our WACC from 20% to 15%. There is greater visibility and stability of construction contracts over the next five years. BCA expects construction demand to average S\$34.5bn over the next five years (2024-28). This is 23% higher than the pre-pandemic average of S\$28bn (2015-19). We believe Pan-United will benefit from this elevated multi-year construction spend with its ~40% market share in ready mix concrete industry. Another boost to market share will stem from rising demand for low-carbon concrete.

Results at a glance

SGD mn	1H24	1H23	YoY	Comment
Revenue	384.7	360.2	6.8%	Driven by volume growth.
Gross profit	83.1	76.6	8.5%	
Gross Margin	21.6%	21.3%	0.3%	
EBITDA	35.4	29.1	21.6%	
EBITDA Margin	9.2%	8.1%	1.1%	Staff cost declined 2% YoY.
PATMI	18.6	15.2	22.5%	
DPS - Interim (cents)	0.70	0.50	40.0%	

Source: Company, PSR

The Positive

+ Operating leverage drive margins. Gross margins crept up to 21.6% in 1H24, a 3-year high from higher sales of low-carbon concrete. EBITDA rose an even stronger 1.1% points from operating leverage as staff cost fell 2% YoY.

The Negative

- Higher capital expenditure. The planned capital expenditure for a new batching plant in Tuas remains on track. This site has been acquired and is under development. Estimated capex is S\$60mn for FY24/25. The consolidation of batching sites to a single location can raise the barrier to entry due to the high CAPEX required and limited sites in the future.

Outlook

We believe there is greater visibility and growth in construction demand than prior cycles. Public construction projects are not just new airport and port terminals, roads and train stations but green infrastructure to address climate change. Meanwhile, private sector jobs will include expansion of the integrated resorts and data centres. We believe Pan-United will be a major beneficiary in (i) the growth of construction demand over the next five years; (ii) a large market (~40%) and (iii) an opportunity to expand market share and margins with its new low-carbon concrete solution.

Maintain BUY with higher TP of S\$0.68 (prev. S\$0.55)

We lower our WACC from the improved visibility of construction demand and strengthening balance sheet with net cash of S\$79.7mn (1H23:S\$18.3mn).

05 August 2024

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.525
FORECAST DIV	SGD 0.027
TARGET PRICE	SGD 0.680
TOTAL RETURN	34.6%

COMPANY DATA

BLOOMBERG CODE:	PAN SP
O/S SHARES (MN) :	698
MARKET CAP (USD mn / SGD mn) :	274 / 366
52 - WK HI/LO (SGD) :	0.56 / 0.37
3M Average Daily T/O (mn) :	0.18

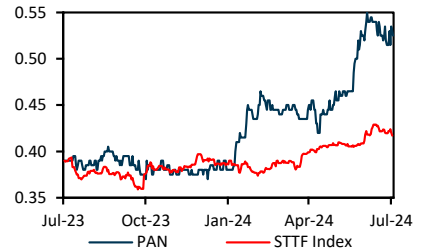
MAJOR SHAREHOLDER

NG HAN WHATT	61.2%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	1.9	22.7	43.4
STTF RETURN	2.8	5.6	7.0

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (S\$m)	FY22	FY23	FY24e	FY25e
Revenue	703.3	774.1	868.6	912.0
Gross Profit	132.7	161.0	173.7	182.4
EBIT	36.4	48.7	55.5	58.2
PATMI	23.3	36.5	42.1	43.9
P/NAV (x)	1.3	1.2	1.1	1.0
P/E (x)	12.2	7.8	6.8	6.5
ROE	13.3%	16.1%	17.5%	16.8%

Source: Company, PSR

VALUATION METHOD

DCF (WACC: 15%, terminal growth: 1%)

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Financials

Income Statement

Y/E Dec (\$\$mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	585.6	703.3	774.1	868.6	912.0
Cost of sales	(477.9)	(570.6)	(613.1)	(694.9)	(729.6)
Gross Profit	107.7	132.7	161.0	173.7	182.4
Staff costs	(42.9)	(48.7)	(57.5)	(60.8)	(62.0)
Depreciation & amortisator	(21.4)	(21.7)	(22.7)	(21.3)	(24.1)
Other expenses	(22.4)	(31.8)	(34.8)	(37.1)	(39.0)
Share of results of associate	5.3	5.9	2.8	1.0	1.0
EBIT	26.2	36.4	48.7	55.5	58.2
Net finance expenses	(2.3)	(2.6)	(3.4)	(3.4)	(3.4)
Profit before tax	23.9	33.8	45.3	52.1	54.8
Taxation	(4.3)	(6.1)	(9.7)	(9.4)	(9.9)
Net Profit	19.7	27.7	35.7	42.7	44.9
Minority interests	(0.3)	(0.2)	(0.1)	(0.6)	(1.0)
Discontinued operations	(0.7)	(4.2)	0.9	-	-
PATMI	18.7	23.3	36.5	42.1	43.9

Per share data (\$\$ cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
BVPS	29.3	30.4	33.3	36.7	40.3
DPS	1.6	1.8	2.3	2.7	2.8
EPS	2.7	3.4	5.2	6.1	6.3

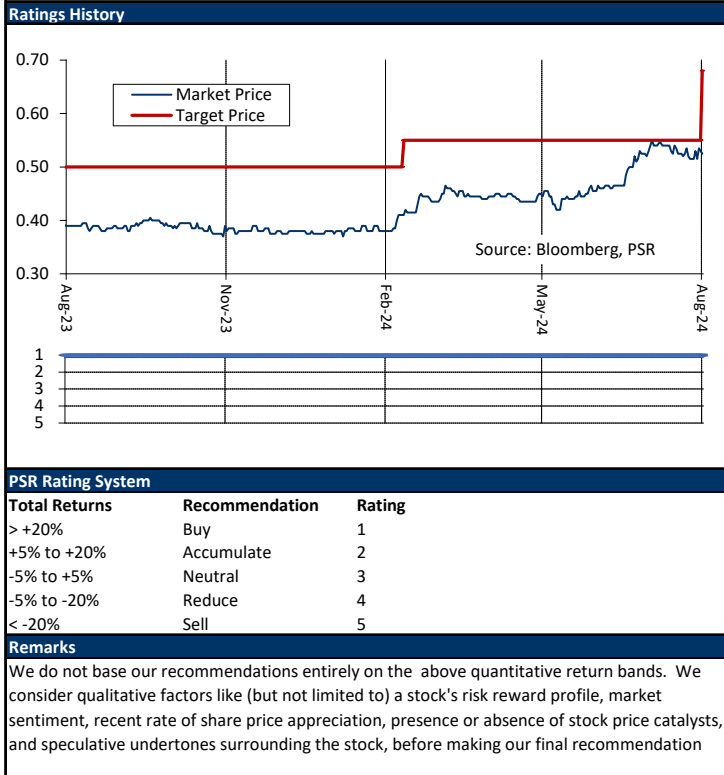
Cash Flow

Y/E Dec (\$\$mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	23.9	33.8	45.3	52.1	54.8
Adjustments	22.4	17.4	25.4	23.8	26.6
WC changes	14.8	(24.5)	0.0	11.7	(17.9)
Cash generated from ops	61.2	26.7	70.7	87.5	63.4
Others	1.9	(0.5)	(7.2)	(13.9)	(12.8)
Cashflow from ops	63.0	26.2	63.5	73.7	50.7
CFI					
CAPEX, net	(5.5)	(11.5)	(10.1)	(40.0)	(5.0)
Others	(3.1)	(3.5)	0.1	-	-
Cashflow from investments	(8.6)	(14.9)	(10.0)	(40.0)	(5.0)
CFF					
Dividends paid to owners	(9.5)	(11.5)	(13.0)	(18.5)	(19.3)
Proceeds from borrowings,	(47.3)	3.0	(38.8)	(1.0)	(0.9)
Others	(0.6)	(0.7)	(1.2)	-	-
Cashflow from financing	(57.3)	(9.3)	(53.0)	(19.4)	(20.2)
Net change in cash	(2.9)	1.9	0.6	14.3	25.5
Cash at the start of the perio	67.6	64.1	65.0	64.7	78.9
Currency translation	0.4	(1.4)	(0.9)	-	-
Ending cash	65.0	64.6	64.7	78.9	104.4

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec (\$\$mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE & Investment Prop.	166.2	147.6	167.1	185.7	166.6
Others	12.4	13.9	14.3	14.6	15.6
Total non-current assets	178.6	161.5	181.4	200.3	182.2
Cash	64.1	64.6	64.4	78.9	104.4
Inventories	23.7	23.2	18.9	28.8	21.3
Trade receivables	125.5	153.0	183.3	197.5	202.3
Others	4.8	19.0	9.5	9.5	9.5
Total current assets	218.1	259.9	276.0	314.7	337.5
Total Assets	396.7	421.4	457.4	515.0	519.6
LIABILITIES					
Trade and other payables	98.4	106.8	134.3	170.1	149.5
ST borrowings	21.4	27.7	12.1	12.1	12.1
Others	12.7	22.6	19.8	18.7	19.2
Total current liabilities	132.5	157.1	166.1	200.8	180.7
LT borrowings	25.2	27.0	9.2	9.2	9.2
Others	25.6	18.9	44.6	43.6	42.7
Total non-current liab.	50.8	45.9	53.8	52.8	51.9
Total liabilities	183.2	203.0	219.8	253.6	232.6
EQUITY					
Share Capital	12.6	12.6	12.6	12.6	12.6
Retained profits	193.2	201.6	221.6	245.3	269.9
Others	(0.8)	(2.8)	(2.5)	(2.5)	(2.5)
Total equity	205.1	211.4	231.8	255.5	280.1
Minority interests	8.4	6.3	5.7	6.3	7.3
Total equity and liabilities	396.7	420.7	457.4	515.4	520.1
Valuation Ratios					
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	15.3	12.2	7.8	6.8	6.5
P/B (x)	1.4	1.3	1.2	1.1	1.0
EV/EBITDA (x)	6.3	5.3	3.5	3.0	2.5
Dividend yield (%)	3.9	4.4	5.6	6.5	6.8
Growth & Margins					
Growth					
Revenue	44.6%	20.1%	10.1%	12.2%	5.0%
Gross profit	27.0%	23.2%	21.3%	7.9%	5.0%
EBIT	401.7%	38.6%	34.0%	13.8%	4.9%
PBT	1280.9%	41.2%	34.1%	14.9%	5.2%
Margins					
Gross profit margin	18.4%	18.9%	20.8%	20.0%	20.0%
EBIT margin	4.5%	5.2%	6.3%	6.4%	6.4%
Net profit margin	3.2%	3.3%	4.7%	4.8%	4.8%
Key Ratios					
ROE	9.8%	13.3%	16.1%	17.5%	16.8%
ROA	4.9%	6.8%	8.1%	8.8%	8.7%
Net Gearing (%)	net cash	net cash	net cash	net cash	net cash



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